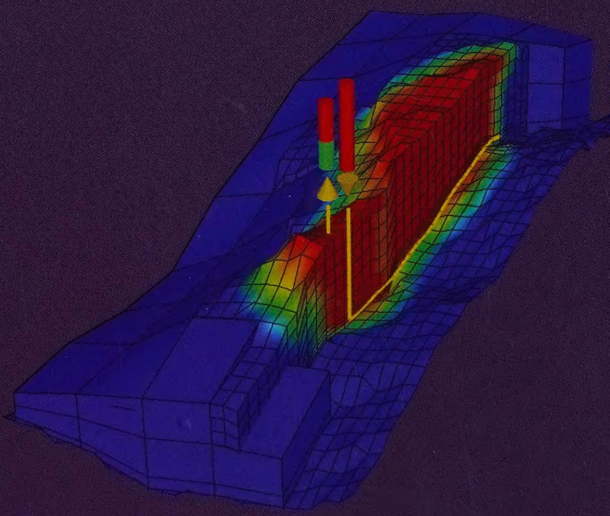
2003

ANNUAL REPORT TO SHAREHOLDERS

Strength *in Emerging Technology*



CMG

COMPUTER
MODELLING
GROUP LTD.

TWENTY-FIVE YEARS

# of Software Development

Established as Research Foundation

Fiscal 1978

Initial Public Offering

Fiscal 1997

Fiscal 1998

Fiscal 1999

38 countries where CMG does business

CMG offices

Annual Meeting

CMG's annual meeting of shareholders will be held at the office of Computer Modelling Group at 150, 3553 – 31 Street N.W., Calgary, Alberta on Wednesday, August 13, 2003 at 10:00 a.m. All shareholders are invited to attend, but if unable to, should send in their proxy material to Computershare.

Financial Highlights

(thousands of dollars)	2003	2002	2001	2000	1999
Software licenses revenues	**7,988**	6,870	6,509	6,408	5,384
Consulting and contract research revenues	**3,380**	2,843	2,408	2,132	2,407
Total revenue, including interest and foreign exchange	**11,222**	9,927	9,310	8,555	8,130
Gross profit	**6,943**	6,283	5,528	4,312	1,770
Gross profit *(%)*	**62%**	63%	59%	50%	22%
Operational earnings (loss)	**1,893**	1,607	1,038	(417)	(3,683)
Future income tax benefit	**507**	–	426	–	–
Settlement of research and development agreement	**–**	749	–	–	–
Reorganization costs	**–**	–	–	(410)	(593)
Earnings (loss) for the year	**2,400**	2,356	1,464	(827)	(4,276)
Cash flow from (used for) operations	**2,404**	1,777	1,610	700	(3,111)
Earnings (loss) per share – basic *($)*	**0.33**	0.32	0.17	(0.10)	(0.50)
Cash flow per share – basic *($)*	**0.33**	0.24	0.19	0.08	(0.36)
Bank debt	**–**	–	–	–	–
Weighted average shares outstanding	**7,272**	7,399	8,575	8,572	8,571
Book value per share *($)*	**1.17**	0.87	0.57	0.40	0.50

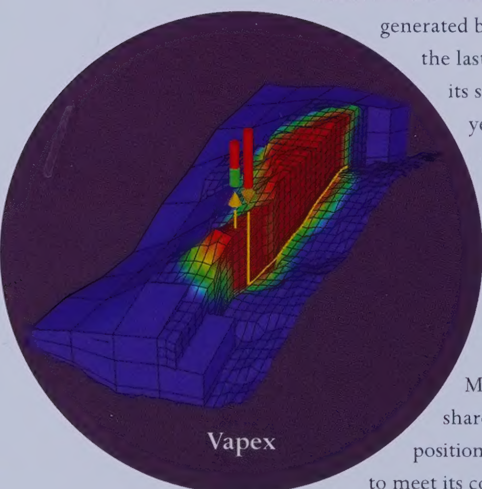
Contents

TO OUR

Shareholders

CMG continues to show improved financial results year after year. In the year ended March 31, 2003, CMG generated $11.2 million in revenues, realized $6.9 million of gross profit and generated both earnings and cash flow from operations of $2.4 million ($0.33 per share) – all record highs in CMG's history.

CMG is in the enviable situation of having a solid financial position, technology that is the leader in a growing market, a highly qualified and stable employee group and possesses the resources to invest in the right opportunities.



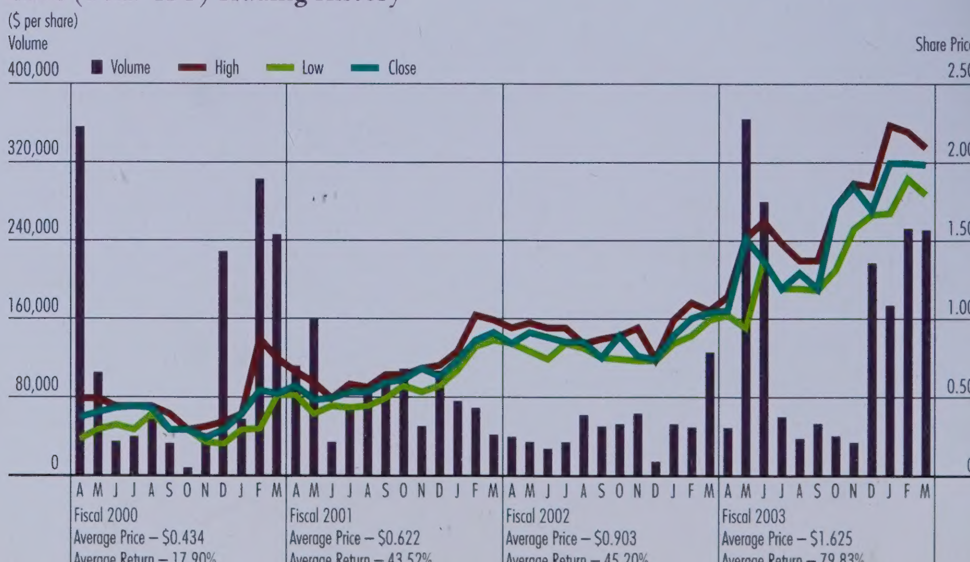
Financial Position – CMG has successively generated both cash flow and profit over the last fourteen quarters; has grown its software license sales year over year; is in a positive working capital position of $7.0 million at March 31, 2003; has over $8.3 million cash in the bank and no debt; and has a book value per share of $1.17 at year end.

During the year ended March 31, 2003, CMG's largest shareholder reduced its ownership position from 49 percent to 44 percent to meet its commitments under a research and development agreement with the Company. This has benefited CMG through the contributions to its research and development programs and has also increased the number of CMG shares available in the marketplace.

Technology – It is CMG's belief that the petroleum industry is becoming more dependent on the use of simulation technology due to the maturity of petroleum reservoirs and the complexities of both current and emerging production processes. The most compelling reasons for the petroleum industry to perform reservoir simulation are:

To increase netback and shareholder value – Petroleum managers of producing companies are constantly faced with the decision of how to invest limited amounts of capital in order to maximize shareholder value. The application of reservoir simulation provides these petroleum managers with the ability to more effectively manage their reservoirs and to evaluate the economics of alternate recovery processes to maximize value at their desk, on their computer.

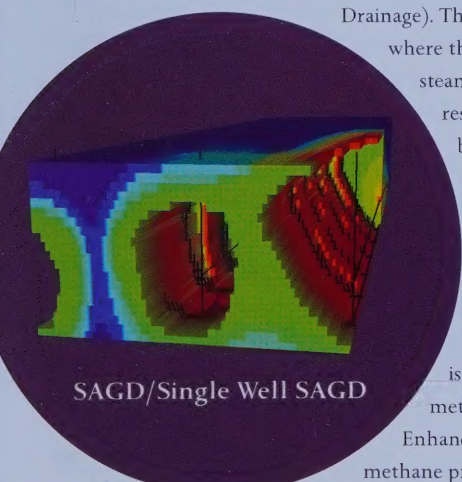
CMG (TSX: CPU) Trading History



NEW RECOVERY TECHNIQUES NECESSITATE THE USE OF SIMULATION – The complexity of both the physical science as to how reservoirs will react and the methodology of application of new recovery techniques are significant. It is far less costly to model the impact of these techniques on a computer than test them in the field.

GOVERNMENTAL/REGULATORY REQUIREMENTS TO RESPONSIBLY PRODUCE PETROLEUM RESOURCES – CMG believes that the petroleum industry will face increasing demands to minimize the amount of CO_2 emissions and will develop innovative ways of how to use these greenhouse gases as a resource as opposed to an effluent.

The implications to CMG are potentially significant. CMG is the leading supplier of advanced recovery processes simulation technology. One has only to review the recent annual reports of Canadian oil producers to ascertain that sizeable amounts of dollars will be invested in developing both Canadian and international reservoirs by using advanced recovery techniques. As an example, Alberta's oilsands reserves, currently estimated at 175 billion barrels of recoverable oil are currently produced in two ways, one of which is through an in-situ recovery process known as SAGD (Steam Assisted Gravity Drainage). This method is one where the injection of steam into the reservoir melts the bitumen and then it is pumped to the surface. Another example of advanced recovery processes is enhanced coalbed methane production. Enhanced coalbed methane production with CO_2 injection accomplishes both an enhancement in the amount of methane produced while serving to reduce greenhouse gases as the CO_2 is used as a resource as opposed to an effluent. Reservoir simulation plays an important role in determining the economic viability of processes like these for the producing company.



Employee Group

– CMG is working in partnership with the world's largest oil producers on joint research projects to advance the Company's simulation technology. These producers come to CMG as a result of the integrity of the Company's research team and the breadth of their skills and their ability to solve complex problems and adapt the solutions into a useable product. The majority of funded research is performed on the condition that CMG retains ownership of the research and has the right to commercialize it into its products.

Investment Opportunities

– CMG started to invest significant portions of earnings in the future development of the Company in the 2003 fiscal year, an investment that will continue in fiscal 2004. The planned investment in additional personnel will provide the base to achieve stronger revenue growth in the future.

In addition, CMG is actively pursuing a number of opportunities for investment in technologies serving the petroleum industry. The Company broadened its acquisition profile to encompass technologies and situations that when complimented by CMG's strengths would bring good value to shareholders.

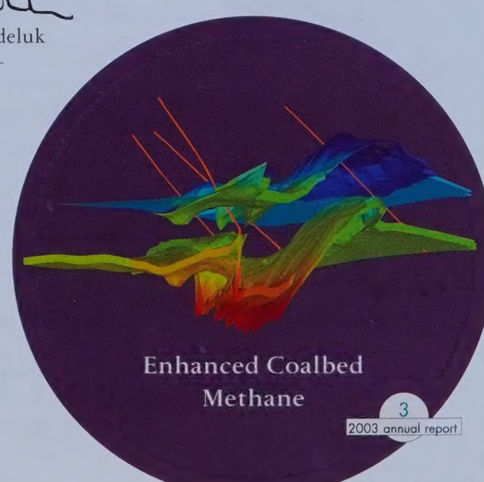
Outlook

Demand for CMG's products and services is expected to continue to grow at a steady pace as activity levels in the petroleum industry remain strong. CMG believes that its strategy of investment in technology research and development to meet the oil and gas industry's future needs will ensure CMG's leadership position in growing new simulation markets.

There are many to thank for CMG's record performance and achievements over this last year. I would like to express my sincere appreciation to our staff, executive group and Board of Directors for their support and contribution to our success.

Kenneth M. Dedeluk
President and Chief Executive Officer

May 21, 2003



MANAGEMENT'S

Discussion and Analysis

IMEX – 3 Phase Black Oil/Condensate Simulator

GEM – Equation of State Compositional Simulator

STARS – 4 Phase Advanced Thermal Simulator

WinProp – PVT Fluid Property Modelling

Builder – 2D & 3D Graphical Simulation Model Builder

Results – 3D & 4D Results "Visualization & Animation Tool"

The following discussion and analysis is management's assessment of the financial and operating results of Computer Modelling Group Ltd. ("CMG" or the "Company") as well as its future opportunities and risks, and should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the year ended March 31, 2003. The reader should be aware that historical results are not necessarily indicative of future performance.

Certain statements in the Management's Discussion and Analysis for CMG may constitute forward-looking statements, which can generally be identified as such because of the context of the statements including words such as the Company believes, anticipates, expects, plans, estimates or words of a similar nature. The forward-looking statements are based on current expectations and are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results.

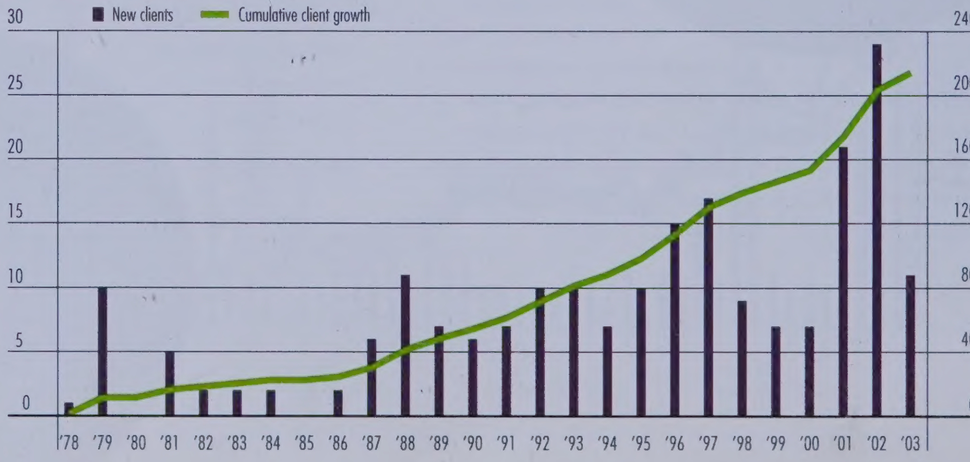
Vision, Business and Strategy

CMG's vision is to be the world's leading supplier of reservoir simulation technologies. CMG has achieved part of this vision as CMG is the leading supplier of advanced process reservoir simulation software, which the Company believes is the most rapidly growing segment of the simulation marketplace due to declining petroleum production from conventional means.

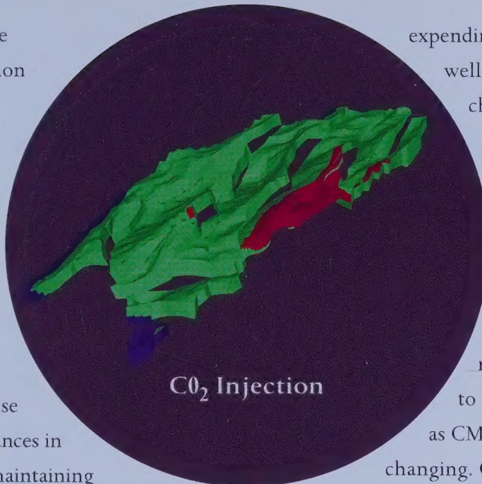
CMG currently sells reservoir simulation software licenses to over 200 oil companies, consulting firms and research institutions in 38 countries. In combination with the supply of its leading edge software technology, CMG performs both funded research and consulting services for its many clients around the world. Funded research projects play an important role in experimenting with new recovery processes and technology that will be used in future years' products. The provision of consulting services, which are typically of a highly complex nature, enables CMG to continually test the boundaries of its software and provides the opportunity to increase software license sales to both new and existing clients.

CMG's strategy is to create value for shareholders by building CMG's financial strength and advancing the Company's software technology development. CMG believes that its strategy of investment in technology research and development to meet the oil and gas industry's

CMG's Historical Growth



future needs will ensure CMG's leadership position in growing new simulation markets.


CO_2 Injection

Key Performance Drivers

To create value for shareholders, CMG focuses its efforts on growth in software license sales, and therefore advances in its technologies, while maintaining appropriate control over costs.

Primary production techniques utilized by the oil and gas industry are enhanced through the use of various advanced process methods to extract additional oil from reservoirs. These advanced processes are used either to accelerate the production of the oil or have been developed to solve the problem of how to get additional oil from the reservoir because of the nature of the reservoir. On average, in known sedimentary basins, the oil industry currently produces 30 percent of the discovered oil in the ground. By applying IOR (improved oil recovery) and EOR (enhanced oil recovery) technologies, as well as new drilling techniques and other production enhancements, the oil industry is able to increase this recovery to 45 percent and in some cases up to 60 percent. The application of reservoir simulation plays an important role in determining the economic viability of these various recovery processes for the producing company.

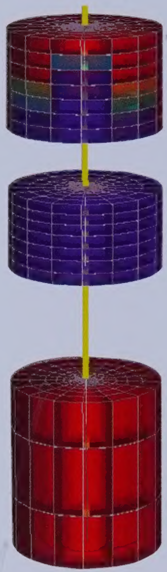
CMG is the dominant supplier of software for simulation of advanced process recovery techniques in petroleum reservoirs. CMG's market share of all petroleum recovery simulation continues to increase as the amount of easy to extract oil declines. The oil industry is becoming more dependent on simulation of advanced recovery techniques, because understanding the science of how the petroleum reservoir will react to these advanced recovery processes, prior to expending the capital on drilling wells and injecting expensive chemicals and steam, is far less costly and risky than trying the various techniques on real wells.

CMG is presently the market leader in the simulation of advanced recovery processes and expects to continue to hold this position as CMG's technology is ever changing. CMG's research and development team are constantly developing innovative ways to increase the use of the Company's software by overcoming existing technological barriers and by being at the forefront in simulating new recovery methods.

The speed and the magnitude of growth in licenses sold in CMG's advanced recovery processes simulators is very dependent on the shift in production from conventional means to more complex recovery methods. The Company cannot control the shift, and timing thereof, from conventional extraction techniques to advanced recovery methods and therefore CMG's financial planning is based on steady growth in its software license business year over year to ensure that expenditures are geared accordingly.

CMG has a number of measurement methods that it reviews internally on a qualitative basis to assess the status of CMG's products compared to its competitors as a quantitative measurement is difficult to attain. These vary from how often CMG's products are selected as the software of choice when directly tested against competitors' products; feedback from clients throughout the year; client satisfaction on custom research and consulting assignments; feedback from partners in joint research endeavors; the number of times that CMG's products are referred to in technical magazines and research papers, to name a few.

Sales by Region



Foam/Gel/Chemical

Quarterly Performance

	Fiscal 2002				Fiscal 2003			
$ thousands, unless otherwise stated	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annuity/maintenance licenses	$1,112	$1,255	$1,195	$1,582	**$1,296**	**$1,486**	**$1,463**	**$1,406**
Perpetual licenses	471	425	565	265	**299**	**389**	**1,216**	**433**
Software licenses	$1,583	$1,680	$1,760	$1,847	**$1,595**	**$1,875**	**$2,679**	**$1,839**
Consulting and contract research	489	590	812	952	**986**	**1,007**	**627**	**760**
Interest and foreign exchange	(6)	121	63	36	**(142)**	**119**	**21**	**(143)**
Revenues	$2,066	$2,391	$2,635	$2,835	**$2,439**	**$3,001**	**$3,327**	**$2,456**
Gross Profit	$1,273	$1,535	$1,619	$1,856	**$ 1,484**	**$1,916**	**$2,082**	**$1,461**
Gross Profit %	62	64	61	65	**61**	**64**	**63**	**59**
Operational earnings	$ 132	$ 392	$ 498	$ 585	**$ 265**	**$ 739**	**$ 739**	**$ 150**
Future income tax benefit (expense)	$ –	$ –	$ –	$ –	**$ 240**	**$ 660**	**$ (280)**	**$ (112)**
Settlement of research and development agreement	$ 749	$ –	$ –	$ –	**$ –**	**$ –**	**$ –**	**$ –**
Earnings for the quarter	$ 881	$ 392	$ 498	$ 585	**$ 505**	**$1,399**	**$ 459**	**$ 38**
Cash flow for the quarter	$ 151	$ 420	$ 560	$ 646	**$ 302**	**$ 877**	**$ 898**	**$ 317**
Earnings per share *($)* – basic	$ 0.11	$ 0.05	$ 0.07	$ 0.08	**$ 0.07**	**$ 0.19**	**$ 0.06**	**$ 0.01**
Cash flow per share *($)* – basic	$ 0.02	$ 0.06	$ 0.08	$ 0.09	**$ 0.04**	**$ 0.12**	**$ 0.12**	**$ 0.04**
Book value per share *($)*	$ 0.67	$ 0.72	$ 0.79	$ 0.87	**$ 0.91**	**$ 1.10**	**$ 1.16**	**$ 1.17**

Capability to Deliver Results

CMG is in a very strong financial position with a history of producing both cash flow and profit over the last successive fourteen quarters, is in a positive working capital position of $7.0 million at March 31, 2003, and has over $8.3 million cash in the bank and no debt. In combination with its strong balance sheet, is the strength of CMG's employee group in both marketing and technology development. Historically, CMG has experienced little turnover, a situation that is not expected to change.

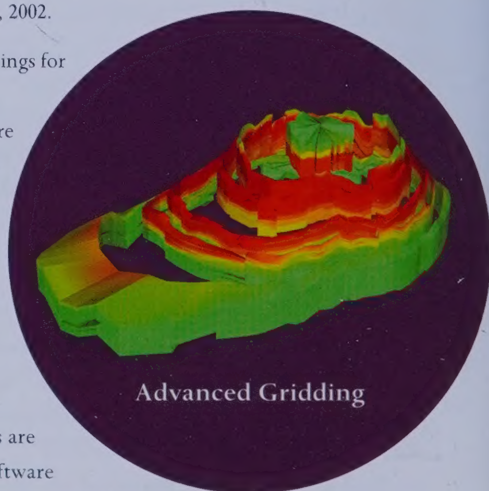
Results of Operations

CMG completed another highly successful year and recorded its highest level of revenues, earnings and cash flow from operations in its history.

This MD&A utilizes the term "operational earnings" to more easily allow for the comparison of ongoing results between the reporting periods as both the current year ended March 31, 2003 and the prior year reflect the impact of unusual items in the recording of future income tax benefits and a settlement of a research and development agreement. The quarterly financial performance table provides the reconciliation from operational earnings to reported earnings for the periods covered by this MD&A.

CMG reported revenues of $11,221,970 for the year ended March 31, 2003, operational earnings of $1,893,011 ($0.26 per share) and cash flow from operations of $2,403,905 ($0.33 per share). These results compared to revenues of $9,927,181, operational earnings of $1,606,623 ($0.22 per share) and cash flow from operations of $1,776,731 ($0.24 per share) for the year ended March 31, 2002.

CMG's earnings for the year ended March 31, 2003 are $2,400,011 ($0.33 per share) compared to $2,355,766 ($0.32 per share) a year ago.

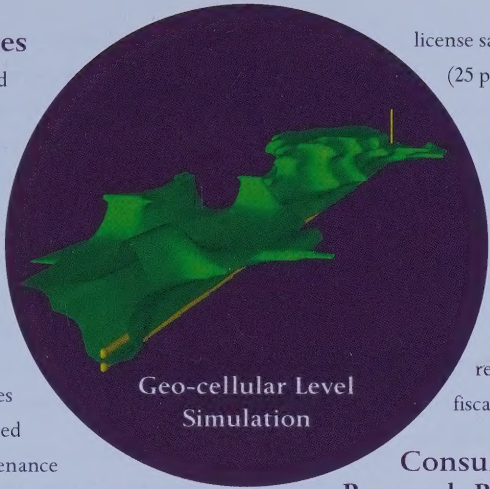


Revenues

CMG's revenues are comprised of software license sales, which provide the majority of the Company's revenues, and consulting and contract research fees.

Software Licenses

CMG generated a record $7,987,740 in software license sales in the year ended March 31, 2003. These sales reflect an increase of $1.1 million (16 percent) from prior year sales of $6,870,417. CMG's software license revenues can be further categorized between annuity/maintenance software licensing, which is generally for a term of one year or less, and perpetual software licensing, whereby the customer purchases the then current version of the software(s) and has the right to use that version in perpetuity. The growth in the Company's software license sales in fiscal 2003 came from existing and new clients in both types of software license sales.



CMG has found that a large percentage of its customers who have acquired perpetual software licenses are subsequently purchasing maintenance licenses to ensure they have access to current CMG technology. CMG's annuity/maintenance licensing for the year ended March 31, 2003 was $5,651,103, representing 71 percent of fiscal 2003 total software license sales. This reflects an increase of 10 percent from the $5,143,689 (75 percent) generated last year.

Software licensing under perpetual sales continues to be a significant part of CMG's business but is more variable in nature as the purchase decision, and its timing fluctuates with clients' needs and budgets. CMG has found that a number of clients prefer to acquire perpetual software licenses rather than leasing the software on an annual basis. The experience over the last few years is that a number of these clients are purchasing additional licenses to allow more users to access CMG technology in their operations. Current year licensing under perpetual sales was $2,336,637, representing 29 percent of fiscal 2003 total software license sales compared to $1,726,728 (25 percent) last year.

CMG has historically maintained a significant percentage of repeat customers and expects that this will continue. At March 31, 2003, CMG has pre-sold $2.9 million of license revenue relating to its next fiscal year ending March 31, 2004.

Consulting and Contract Research Revenues

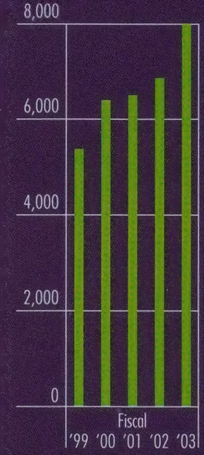
CMG recorded consulting and contract research revenues of $3,379,639 for the year ended March 31, 2003, up 19 percent from prior year revenues of $2,842,868. CMG performs both funded research and consulting services for its many customers around the world. In addition, CMG Reservoir Simulation Foundation ("the Foundation"), the sole holder of CMG's Non-Voting Shares, has committed to provide CMG with annual research and development grants valued up to $500,000 per annum through January 1, 2008. During the year ended March 31, 2003, CMG recorded $477,599 in contract research revenues from the Foundation, compared to $363,713 in the prior year.

Consulting and contract research activities are regarded by CMG as variable in nature as both the timing and dollar magnitude of work are dependent on activities and budgets within client companies. In addition, demand for these services is impacted by the prevailing strength of the petroleum industry. Strong activity levels and cash flows in the petroleum industry have historically generated strong consulting and contract research revenues to CMG. CMG manages the risk of the variable nature of these revenues by minimizing fixed cost burdens and by engaging third party contractors on a project by project basis.

This business segment's profits for both the third and fourth quarters this year were impacted by the political unrest in Venezuela, a country in

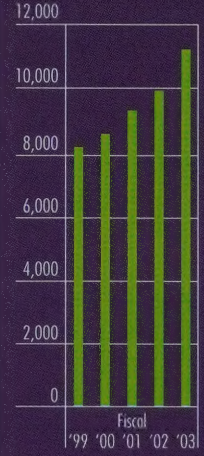
Software License Sales

($ thousands)



Total Revenues

($ thousands)

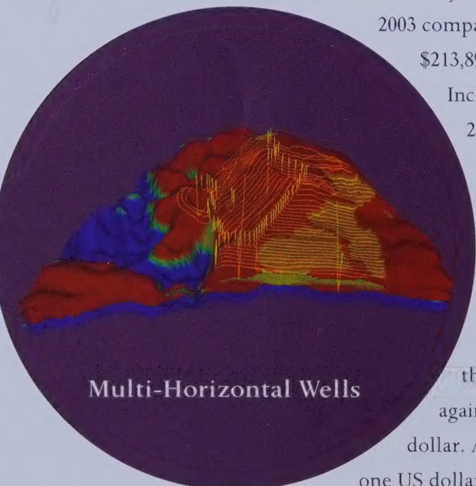


which CMG has historically generated a significant amount of consulting business. One consulting assignment is presently ongoing in Venezuela but at this time it is difficult to predict if and when previous activity levels may be restored. As indicated in CMG's third quarter interim report, short term revenues are anticipated to be lower than previous quarters, however, the economic conditions supporting a strong oil and gas industry activity level continue and it is anticipated that this segment will provide strong revenues over the long term.

At March 31, 2003, CMG has recorded approximately $0.4 million of pre-sold revenue relating to consulting and contract research revenues for projects to be completed in the fiscal year ending March 31, 2004.

Interest and foreign exchange

Interest and foreign exchange reflects negative revenue of $145,409 for the year ended March 31, 2003 compared to income of $213,896 a year ago. Included in the fiscal 2003 amount is a foreign exchange loss of approximately $268,000 resulting from the weakening of the US dollar against the Canadian dollar. At March 31, 2002 one US dollar was equivalent to $1.598 Canadian, at March 31, 2003 it was equivalent to $1.471 Canadian, a decrease in value of $0.127 Canadian.


Multi-Horizontal Wells

Expenses

CMG's total cash expenses amounted to $8,715,466 for the year ended March 31, 2003, up $0.9 million from the $7,786,737 expended a year ago. This was primarily due to a combination of planned increases in manpower and compensation as well as variable project related third-party contract costs.

As a technology service company, CMG's largest area of expenditure is for its people. Approximately 74 percent (2002 – 73 percent) of CMG's $8.0 million expended in fiscal 2003 on marketing, direct consulting, general and administrative, and product research and development costs directly related to manpower.

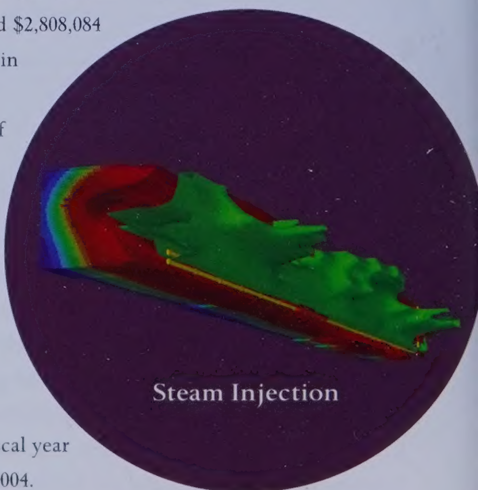
Similar to this fiscal year, CMG plans to continue its investment strategy to produce stronger revenues for the future and is planning to increase its employee base by up to five staff members in fiscal 2004 in the marketing, consulting and product research and development areas.

The next largest expenditure component for CMG is on third party contract costs with CMG expending $572,839 in the year ended March 31, 2003, up from the $445,975 recorded last year. These costs are variable in nature and are only incurred when CMG has an associated revenue contract.

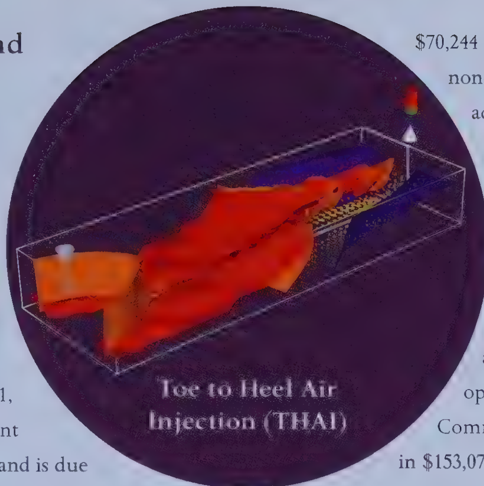
Investment in Research and Development

CMG's strategy of maintaining and growing long-term value for shareholders can only be achieved through continued investment in research and development. Along with its leadership position in the simulation of proven advanced recovery processes, CMG has positioned itself to play an important role in experimenting with new petroleum extraction processes and technology through participation with prominent research institutions and industry sponsored consortiums.

During the year ended March 31, 2003, CMG invested $2,808,084 (2002 – $2,563,336) in research and development, all of which is expensed to earnings. A similar investment amount, adjusted for planned increases as indicated above, is expected for the fiscal year ending March 31, 2004.


Steam Injection

Depreciation and Amortization


Toe to Heel Air Injection (THAI)

CMG recorded $613,493 in depreciation and amortization expense, inclusive of the amount of depreciation reflected in product research and development costs, for the year ended March 31, 2003. This is up 15 percent from the previous year and is due to fixed asset additions in the current fiscal year. The depreciation and amortization charge for both fiscal years ended March 31, 2003 and 2002 includes an annual amortization of $386,441 for CMG's deferred sales offices costs, all of which has been fully amortized at March 31, 2003.

Future income taxes

During the year ended March 31, 2003, CMG recognized the tax benefits of its Canadian non-capital losses and depreciable assets as an asset on its balance sheet. Simplistically, as CMG generates Canadian sourced income, a reduction in this asset will occur and a charge will be made to earnings. In addition, changes to both federal and provincial income tax rates will immediately impact earnings as CMG's future income tax asset is valued each balance sheet date based on the prevailing income tax rates when the tax pools are expected to be utilized.

Liquidity and Capital Resources

CMG generated $2,403,905 ($0.33 a share) of cash flow from operations in the year ended March 31, 2003, a 35 percent increase from the $1,776,731 ($0.24 per share) generated in the year ended March 31, 2002.

CMG's accounts receivable reflects a decrease of $650,441 at March 31, 2003 as compared to March 31, 2002. This decrease is primarily due to timing of accounts receivable invoicing and collection and the valuation of US denominated accounts receivable due to a weaker US to Canadian dollar at March 31, 2003. CMG generated $70,244 in cash from changes in other non-cash working capital accounts, which is consistent with normal operations, increased its deferred revenue position by $438,281 and expended $505,041 in capital additions. CMG employees and directors exercised options to purchase 394,225 Common Shares, which resulted in $153,077 in cash proceeds for the year ended March 31, 2003.

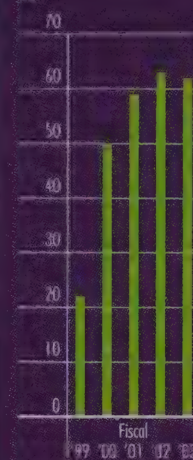
CMG has a capital budget of $0.6 million for fiscal 2004, all of which will be funded internally from operations.

At March 31, 2003, CMG's liquidity as measured by working capital is $7,024,097, an increase of over $2 million from its position a year ago. In addition, CMG has no debt and has access to a $1.0 million line of credit with its principal banker, none of which has been drawn at March 31, 2003.

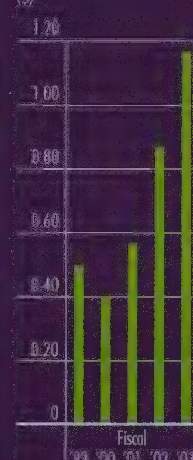
Pursuant to the terms of an Amended and Restated Research and Development Agreement (the "Agreement"), the Foundation has fulfilled its research grant funding commitment for CMG's fiscal year ended March 31, 2003 by way of surrendering 97,714 Non-Voting Shares of the Corporation for cancellation in the first quarter ending June 30, 2002 and by the subsequent quarterly cash payments to CMG aggregating $375,000. On April 1, 2003, the Foundation paid the first of fiscal 2004 quarterly grants in cash and the maximum number of shares that could now be potentially surrendered to the Company for cancellation pursuant to the Agreement through January 1, 2008 to satisfy the Agreement commitments is 1,352,597 Non-Voting Shares.

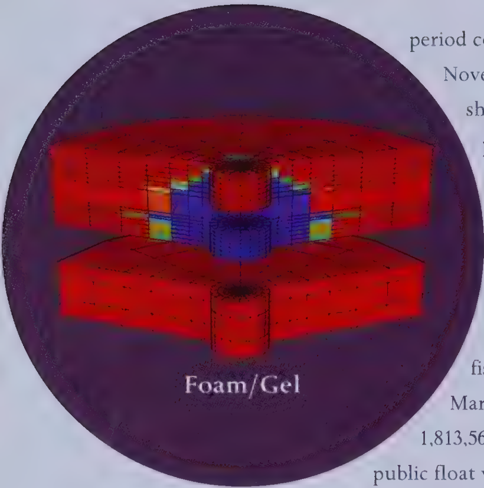
On November 13, 2002, CMG announced its intention to purchase for cancellation up to 320,000 of its Common Shares in accordance with the normal course issuer bid procedures under Canadian securities law during the 12-month

Gross Profit Percentages
(%)



Book Value per Share
($)





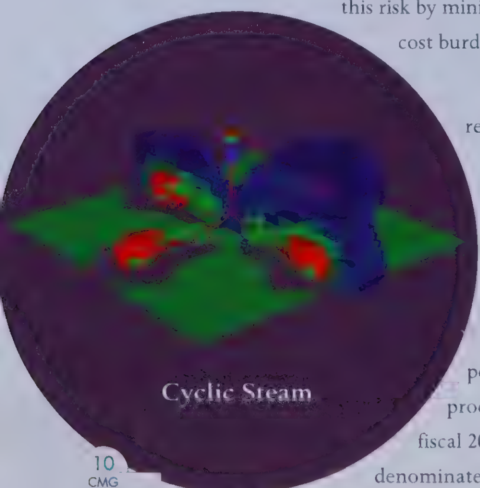
period commencing November 13, 2002. No shares have been purchased pursuant to this normal course issuer bid to May 21, 2003.

During the fiscal year ended March 31, 2003, 1,813,567 shares of CMG's public float were traded on the TSX Venture Exchange. CMG's share prices ranged from $0.95 to $2.24 per share and last traded, prior to year end, on March 31, 2003 at $1.99 for a year end market capitalization of $14.6 million.

Business Risk

CMG's clients are oil and gas companies and it might therefore be assumed that CMG's financial results are significantly impacted by oil commodity prices. CMG's actual experience of growth in software license revenues during depressed oil price markets confirms the belief that software license sales are influenced more by the utility of the software as opposed to the prevailing commodity price. Having said this however, one has to assume that low oil prices and resulting lower cash flow in the industry will impact how clients license CMG software; one would expect sales of perpetual licenses to decrease in favor of leasing software on a term basis.

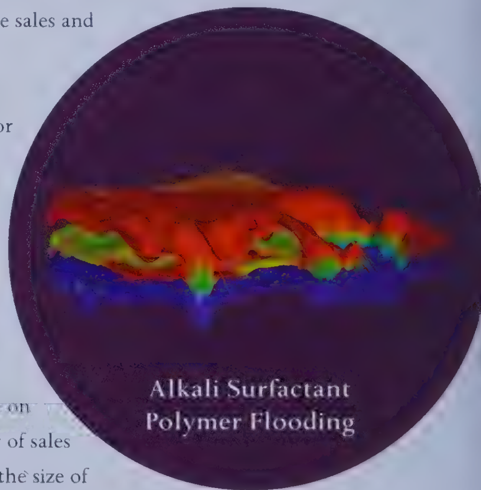
Volatility in oil commodity prices does have an impact on CMG's consulting and contract research business. CMG manages this risk by minimizing its fixed cost burdens in this area.



CMG's reported results are affected by the exchange rate between the Canadian dollar and the US dollar as approximately 80 percent of CMG's product revenues in fiscal 2003 were denominated in US dollars.

Approximately 30 to 35 percent of CMG's costs in fiscal 2003 were denominated in US dollars and provided a hedge against the fluctuation in currency exchange between the US and the Canadian dollar on revenues. CMG's residual revenues and costs are primarily denominated in Canadian dollars and CMG's policy is to convert its excess US dollar cash into Canadian dollars when received.

CMG sells its products and services in 38 countries worldwide, some of these countries have greater economic and political risk than experienced in North America and as a result there may be greater risk associated with sales in those jurisdictions. CMG manages this risk by invoicing for the full license term in advance in the majority of software license sales and by invoicing as frequently as the contract allows for consulting and contract research services on a percentage-of-completion basis. In addition, CMG takes out specific insurance on a limited number of sales depending upon the size of the sale and CMG's view of the country risk at the time of sale.



Although competition is very active, CMG believes that it has distinct competitive advantages. These advantages consist of proven technology, which is comprehensive in product scope, international presence and recognition as a major independent supplier. Sustaining competitive advantage is another issue that CMG addresses by making a significant ongoing commitment to research and development spending.

Outlook

The oil and gas industry continues to benefit from strong energy prices and many companies have announced significant capital programs for the coming fiscal year. These factors support the view that CMG's software license sales will continue to grow at a steady pace in the ensuing year, as will its profits from its consulting and contract research business.

MANAGEMENT'S

Statement of Responsibility

Management is responsible for the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada consistently applied, using management's best estimates and judgements, where appropriate. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial statements.

KPMG LLP, Chartered Accountants, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required under Canadian generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for overseeing that management fulfills its financial reporting responsibilities. The Audit Committee reviews the accompanying consolidated financial statements and the financial content of the Annual Report and meets regularly with management and KPMG LLP to discuss internal controls, accounting and auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.

Janet M. Taylor
Vice President, Finance
and Chief Financial Officer
May 21, 2003

Kenneth M. Dedeluk
President and
Chief Executive Officer

AUDITORS' REPORT

to the Shareholders

We have audited the consolidated balance sheets of Computer Modelling Group Ltd. as at March 31, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Calgary, Canada
April 30, 2003

CONSOLIDATED

Balance Sheets

March 31,	2003	2002
Assets		
Current assets:		
Cash and cash equivalents *(note 2)*	$ 8,376,660	$ 5,165,753
Accounts receivable	3,034,439	3,684,880
Prepaid expenses	251,545	160,338
	11,662,644	9,010,971
Fixed assets *(note 3)*	626,235	348,246
Deferred charges *(note 4)*	–	386,441
Future income taxes *(note 5)*	933,000	426,000
	$ 13,221,879	$ 10,171,658
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,257,557	$ 1,096,106
Deferred revenue	3,380,990	2,942,709
	4,638,547	4,038,815
Shareholders' equity:		
Share capital *(note 6)*	10,593,129	10,452,618
Deficit	(2,009,797)	(4,319,775)
	8,583,332	6,132,843
	$ 13,221,879	$ 10,171,658

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS

# of Earnings and Deficit

Years ended March 31,	2003	2002
Revenue		
Software licenses	$ 7,987,740	$ 6,870,417
Consulting and contract research	3,379,639	2,842,868
Interest and foreign exchange	(145,409)	213,896
	11,221,970	9,927,181
Cost of Sales		
Marketing expenses	3,148,157	2,801,217
Direct consulting expenses	558,210	397,044
Third-party contract costs	572,839	445,975
	4,279,206	3,644,236
Gross Profit	6,942,764	6,282,945
General and administrative expenses	1,580,518	1,490,838
Depreciation and amortization	516,560	486,040
Product research and development costs	2,808,084	2,563,336
Settlement of research and development agreement *(note 6c)*	–	(749,143)
Earnings before income and other taxes	2,037,602	2,491,874
Income and other taxes *(note 5)*		
Foreign withholding taxes	143,001	133,000
Other current taxes	1,590	3,108
Future income taxes (benefit)	(507,000)	–
	(362,409)	136,108
Earnings for the year	2,400,011	2,355,766
Deficit, beginning of year	(4,319,775)	(5,758,128)
Excess of settlement amount over book value on cancellation of Non-Voting shares *(note 6c)*	(90,033)	(917,413)
Deficit, end of year	$ (2,009,797)	$ (4,319,775)
Weighted average number of shares outstanding	7,271,760	7,398,632
Per share		
Earnings for the year		
Basic	$ 0.33	$ 0.32
Diluted	$ 0.32	$ 0.30

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS

# of Cash Flows

Years ended March 31,	2003	2002
Cash provided by (used for)		
Operating		
Earnings for the year	**$ 2,400,011**	$ 2,355,766
Items not involving cash:		
Depreciation and amortization	**613,493**	533,821
Settlement of research and development agreement	**–**	(749,143)
Contract research revenue	**(102,599)**	(363,713)
Future income taxes (benefit)	**(507,000)**	–
Cash flow from operations	**2,403,905**	1,776,731
Changes in non-cash working capital:		
Accounts receivable	**650,441**	(1,123,447)
Accounts payable and accrued liabilities	**161,451**	120,691
Prepaid expenses	**(91,207)**	12,505
	3,124,590	786,480
Financing		
Deferred revenue	**438,281**	(487,667)
Issue of common shares	**153,077**	1,138
	591,358	(486,529)
Investing		
Fixed asset additions	**(505,041)**	(292,245)
Increase in cash and cash equivalents	**3,210,907**	7,706
Cash and cash equivalents, beginning of year	**5,165,753**	5,158,047
Cash and cash equivalents, end of year	**$ 8,376,660**	$ 5,165,753

See accompanying notes to consolidated financial statements.

NOTES TO

Consolidated Financial Statements

Years ended March 31, 2003 and 2002

1 Significant Accounting Policies

(A) BASIS OF CONSOLIDATION:

These consolidated financial statements include the accounts of the Company and all of its subsidiaries, all 100% owned. All inter-company transactions have been eliminated.

(B) REVENUE RECOGNITION:

Software license sales are recognized as revenue upon the fulfillment of all significant obligations under the terms of the license agreements. Any software license fees received relating to a future fiscal period are deferred and recognized in the appropriate future period. Both consulting and contract research revenues are recorded on a percentage-of-completion basis whereby revenues and costs are recorded in operations based on work completed.

(C) CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of cash and highly liquid investments which have maturities of less than three months at the time of purchase. These cash equivalents consist primarily of term deposits and are stated at cost, which approximates market value.

(D) FIXED ASSETS:

Fixed assets are recorded at cost. Leases that transfer substantially all the benefits and risks of ownership to the Company are accounted for as capital leases whereby the asset values and related obligations are recorded in the consolidated financial statements.

Depreciation is provided using the following annual rates and methods that are expected to amortize the cost of the fixed assets over their estimated useful lives:

Computer equipment	33 1/3% straight-line
Furniture and equipment	20% straight-line
Leasehold improvements	Straight-line over the lease term

(E) PRODUCT RESEARCH AND DEVELOPMENT COSTS:

All costs of product research and development are expensed to operations as incurred as the impact of both technological changes and competition require the Company to continually enhance its products on an annual basis. Product research and development costs include depreciation of $96,933 for the year ended March 31, 2003 (2002 – $47,781).

(F) DEFERRED CHARGES:

Costs associated with the establishment of new international sales offices are deferred, for a period not to exceed two years, until such offices are fully operational. After reaching operational status, the deferred sales office costs are amortized to operations over a period of five years or are written down when it is determined that the costs will not be fully recovered from related future revenues.

(G) FOREIGN CURRENCY:

The Company's subsidiaries are considered to be integrated operations. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end while other consolidated balance sheet items are translated at historic rates.

Revenues and expenses are translated at the rate of exchange in effect on the transaction dates. Realized and unrealized foreign exchange gains and losses are included in operations in the year in which they occur.

(H) INCOME TAXES:

The Company provides for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future income tax assets and liabilities are measured using tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. Any change to the net future income tax assets and liabilities is included in operations in the year it occurs.

(I) PER SHARE AMOUNTS:

Basic earnings per share is computed by dividing earnings by the weighted average number of Common and Non-Voting Shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

In computing diluted earnings per share, 315,680 shares were added to the weighted average number of Common and Non-Voting Shares outstanding during the year ended March 31, 2003 (2002 – 341,598 shares) for the dilutive effect of employee stock options.

(J) STOCK-BASED COMPENSATION PLAN:

The Company has a stock-based compensation plan that is described in Note 6(D). No compensation expense is recognized when stock options are issued. Any consideration paid on the exercise of stock options is credited to share capital. In addition, the Company discloses the pro forma effect of accounting for the fair value of stock options granted in note 6(D).

(K) USE OF ESTIMATES AND ASSUMPTIONS:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs and expenses for the year. Actual results may differ from such estimates and the differences could be material.

2 Cash and Cash Equivalents

	2003	2002
Cash	**$ 1,265,744**	$ 1,453,256
Term deposits	**7,110,916**	3,712,497
	$ 8,376,660	$ 5,165,753

3 Fixed Assets

2003	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	**$ 941,411**	**$ 597,730**	**$ 343,681**
Furniture and equipment	**399,614**	**285,549**	**114,065**
Leasehold improvements	**348,898**	**180,409**	**168,489**
	$ 1,689,923	**$ 1,063,688**	**$ 626,235**

2002	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	$ 896,044	$ 669,690	$ 226,354
Furniture and equipment	348,119	242,831	105,288
Leasehold improvements	171,840	155,236	16,604
	$ 1,416,003	$ 1,067,757	$ 348,246

4 Deferred Charges

	2003	2002
Deferred sales offices costs	**$ 2,365,412**	$ 2,365,412
Accumulated amortization and write-down	**2,365,412**	1,978,971
	$ –	$ 386,441

5 Income and Other Taxes

The provision for income and other taxes reported differs from the amount computed by applying the combined Canadian Federal and Provincial statutory rate to the earnings before income and other taxes. The reasons for this difference and the related tax effects are as follows:

	2003	2002
Statutory tax rate	**38.62%**	41.12%
Expected income tax	**$ 786,923**	$ 1,024,659
Recognized benefit of future income tax assets	**(1,316,755)**	(1,042,209)
Permanent differences	**22,832**	17,550
Foreign withholding and other taxes	**144,591**	136,108
	$ (362,409)	$ 136,108

The components of the Company's net future income tax asset at March 31, 2003 are as follows:

	Canada	Other	Total
Benefit of non-capital/net operating losses	$ 811,000	$ 207,000	$ 1,018,000
Fixed assets	122,000	–	122,000
	$ 933,000	$ 207,000	1,140,000
Valuation allowance			207,000
Future income tax asset			**$ 933,000**

The Canadian non-capital loss carryforwards of $ 2.2 million expire in 2006. The net operating losses in other countries expire as follows: $ 0.1 million in 2004 and $ 0.5 million between 2012 and 2023.

6 Share Capital

(A) AUTHORIZED:

An unlimited number of Common Shares, an unlimited number of Non-Voting Shares, and an unlimited number of Preferred Shares, issuable in series.

(B) ISSUED:

	Common Shares		Non-Voting Shares	
	Number	Consideration	Number	Consideration
Balance – March 31, 2001	3,197,658	$ 9,955,356	5,378,572	$ 691,567
Issued for cash – stock options exercised at $0.28 per share	4,063	1,138	–	–
Cancelled pursuant to Amended and Restated Research and Development Agreement	–	–	(1,519,998)	(195,443)
Converted into Common Shares	425,000	54,646	(425,000)	(54,646)
Balance – March 31, 2002	3,626,721	10,011,140	3,433,574	441,478
Issued for cash – stock options exercised at: $0.28 per share	243,000	68,040	–	–
$0.54 per share	94,975	51,287	–	–
$0.60 per share	56,250	33,750	–	–
Cancelled pursuant to Amended and Restated Research and Development Agreement	–	–	(97,714)	(12,566)
Converted into Common Shares	381,085	48,999	(381,085)	(48,999)
Balance – March 31, 2003	**4,402,031**	**$ 10,213,216**	**2,954,775**	**$ 379,913**

The Non-Voting Shares are convertible into an equivalent number of Common Shares at any time at the option of the holder.

(C) NON-VOTING SHARES:

On January 30, 2001, the Company and CMG Reservoir Simulation Foundation ("the Foundation"), the sole holder of the Non-Voting Shares, entered into an Amended and Restated Research and Development Agreement ("Agreement"), which was approved by the Company's shareholders on May 25, 2001. The Agreement terms as negotiated resulted in the Company receiving as a one-time settlement, 1,085,714 Non-Voting Shares of the Company for cancellation, and then on a quarterly basis commencing as of April 1, 2001 through January 1, 2008: $125,000 cash; or the surrender to the Company of a specified number of shares for cancellation (starting at 108,571 per quarter through fiscal 2002 and declining through the eight years to 57,699 per quarter through fiscal 2008); or a pro-rata combination of cash and shares for cancellation.

During the year ended March 31, 2003, the Foundation surrendered a total of 97,714 (2002 – 1,519,998) Non-Voting Shares and paid $375,000 in cash to the Company. On April 1, 2003, the Foundation paid its quarterly commitment in cash and the maximum number of shares that could now potentially be surrendered for cancellation through January 1, 2008 pursuant to this Agreement is 1,352,597 Non-Voting Shares.

(D) STOCK-BASED COMPENSATION PLAN:

The Company has reserved 1,069,595 Common Shares for issuance to employees and directors pursuant to the Company's stock option plan. Pursuant to the stock option plan, the maximum term of an option granted cannot exceed five years from the date of grant. The stock options currently outstanding have been granted for a term not to exceed five years.

The majority of these outstanding stock options vest as to 50 percent after the first year anniversary, from date of grant, and then vest as to 25 percent of the total options granted after each of the second and third year anniversary dates. Changes in options in the two years ended March 31, 2003 were as follows:

	2003		2002	
	Options Granted	Weighted Average Exercise Price	Options Granted	Weighted Average Exercise Price
Outstanding at beginning of year	**661,400**	**$ 0.44**	636,150	$ 0.42
Granted:				
Expiry June 11, 2006	**–**	**–**	30,000	0.89
Expiry May 30, 2007	**15,500**	**1.45**	–	–
Expiry August 9, 2007	**587,500**	**1.20**	–	–
Expiry October 31, 2007	**10,000**	**1.62**	–	–
Cancelled:				
Expiry December 15, 2003	**–**	**–**	(687)	0.28
Exercised:				
Expiry December 15, 2003	**(243,000)**	**0.28**	(4,063)	0.28
Expiry August 4, 2005	**(94,975)**	**0.54**	–	–
Expiry May 16, 2005	**(56,250)**	**0.60**	–	–
Outstanding at end of year	**880,175**	**$ 1.00**	661,400	$ 0.44
Options exercisable at end of year	**232,631**	**$ 0.55**	472,950	$ 0.37

The exercise prices of all options outstanding at March 31, 2003 are as follows: 71,500 at $0.28 (expiry December 15, 2003); 20,000 at $1.20 and 7,500 at $0.54 (expiry March 31, 2004); 33,700 at $0.60 (expiry May 16, 2005); 121,475 at $0.54 (expiry August 4, 2005); 3,000 at $0.85 (expiry February 6, 2006); 30,000 at $0.89 (expiry June 11, 2006); 15,500 at $1.45 (expiry May 30, 2007); 567,500 at $1.20 (expiry August 9, 2007) and 10,000 at $1.62 (expiry October 31, 2007).

Had the fair value method of accounting for stock-based compensation been used, the net effect on the consolidated financial statements for 2003 would have been to increase expenses and decrease net earnings by $51,637, and decrease diluted earnings per share by $0.007. The fair value of each option was determined as at each stock option grant date using the Black-Scholes model with the following assumptions: risk free interest rate – varied from 4.1 percent to 4.9 percent, expected life – 5 years, and volatility – varied from 57 percent to 60 percent. The weighted average grant-date fair value of options granted was $0.65 per share.

7 Other Information

(A) COMMITMENTS:

The Company has lease commitments relating to its office premises. The minimum operating lease rental payments pursuant to these contracts are estimated to be 2004 – $404,000; 2005 – $319,000; 2006 – $103,000; 2007 – $103,000 and 2008 – $60,000.

(B) LINE OF CREDIT:

The Company has arranged for a $1.0 million line of credit with its principal banker, which can be drawn down by way of a demand operating credit facility and/or letters of credit. As at March 31, 2003, no amounts had been drawn on this line of credit.

(C) FINANCIAL INSTRUMENTS:

The carrying values of all monetary assets and liabilities approximate their fair values due to the relatively short period to maturity of the instruments.

8 Segmented Information

OPERATING SEGMENTS

Year ended March 31, 2003	Software Licenses	Consulting and Contract Research	Corporate	Total
Revenue	$ 7,987,740	$ 3,379,639	$ (145,409)	$ 11,221,970
Gross profit	5,207,444	1,880,729	(145,409)	6,942,764
General and administrative expenses			1,580,518	1,580,518
Depreciation and amortization	476,412	17,499	22,649	516,560
Product research and development costs			2,808,084	2,808,084
Income and other taxes	43,367	99,634	(505,410)	(362,409)
Earnings (loss) for the year	$ 4,687,665	$ 1,763,596	$ (4,051,250)	$ 2,400,011
Total Assets	$ 2,309,324	$ 1,135,687	$ 9,776,868	$ 13,221,879
Capital Expenditures	$ 119,256	$ 18,475	$ 367,310	$ 505,041

Year ended March 31, 2002	Software Licenses	Consulting and Contract Research	Corporate	Total
Revenue	$ 6,870,417	$ 2,842,868	$ 213,896	$ 9,927,181
Gross profit	4,399,239	1,669,810	213,896	6,282,945
General and administrative expenses			1,490,838	1,490,838
Depreciation and amortization	452,407	12,865	20,768	486,040
Product research and development costs			2,563,336	2,563,336
Settlement of research and development agreement			(749,143)	(749,143)
Income and other taxes	14,212	118,788	3,108	136,108
Earnings (loss) for the year	$ 3,932,620	$ 1,538,157	$ (3,115,011)	$ 2,355,766
Total Assets	$ 3,404,020	$ 917,811	$ 5,849,827	$ 10,171,658
Capital Expenditures	$ 126,073	$ 34,139	$ 132,033	$ 292,245

GEOGRAPHIC SEGMENTS

Years ended March 31,	2003		2002	
	Revenue	Fixed Assets	Revenue	Fixed Assets
Canada	$ 2,167,606	$ 493,488	$ 2,072,047	$ 241,590
United States	2,798,055	34,594	2,143,101	22,137
Venezuela	1,468,600	90,580	1,720,943	74,605
Other Foreign	4,787,709	7,573	3,991,090	9,914
	$ 11,221,970	$ 626,235	$ 9,927,181	$ 348,246

In 2003, the Company derived 18 percent in revenue from one customer. In 2002, the Company derived 13 percent in revenue from one different customer.

CORPORATE

Information

Directors

Kenneth M. Dedeluk

Kenneth F. McCready

Frank L. Meyer
Chairman of the Board

Robert F.M. Smith

K.C. Yeung

John B. Zaozirny

Officers

Kenneth M. Dedeluk,
President & CEO

Allan D. Hiebert,
VP Visualization & New Technologies

Ronald D. Kutney,
VP Sales & Marketing

Long X. Nghiem,
VP Research & Development

Janet M. Taylor,
VP Finance & CFO

Andrew G. Love,
Corporate Secretary

Sales Offices

Calgary, Alberta, Canada

Houston, Texas, USA

Caracas, Venezuela

London, England

Beijing, China

Transfer Agent

Computershare Trust Company of Canada

Listing

TSX Venture Exchange, "CPU"

COMPUTER MODELLING GROUP LTD.

Head Office

150, 3553 - 31 Street NW
Calgary, Alberta, Canada T2L 2K7
Telephone: (403) 531-1300
Facsimile: (403) 282-1823
website: www.cmgl.ca
email: cmgl@cmgl.ca

Designed and produced by Toucan Graphics and Design Ltd
Pump jack photo by Jeremy Woodhouse/Getty Images
Printed in Canada

CMG
150, 3553 - 31 Street NW
Calgary, Alberta, Canada
T2L 2A6
website: www.cmgl.ca
email: cmgl@cmgl.ca